Opinion: EANDCB validation
Origin: domestic
RPC reference number:RPC-4259(1)-BEIS-Ofgem
Date of implementation: 8 January 2018

Regulatory Policy Committee

Prepayment meters installed under warrant for non-payment of debt

Department for Business, Energy and Industrial Strategy - Ofgem

RPC rating: validated

Description of measure

Retail energy suppliers can install prepayment meters (PPM) for consumers under a warrant for non-payment of debt to the energy supplier. Suppliers are expected to use warrants only as a last resort, but consumer groups have highlighted cases of suppliers moving to force-fit a PPM under warrant very quickly. Ofgem's request for information on the process has also identified issues concerning the level, consistency and transparency of charges levied by suppliers to cover the costs of obtaining and enforcing a warrant. After considering responses to a statutory consultation, Ofgem has, therefore, proposed to modify the relevant supply licence conditions to include a £150 cap on warrant costs that suppliers can recover from domestic consumers. This licence change took effect on 8 January 2018.

Impacts of measure

Sixteen energy suppliers have used the warrant process and will, therefore, be affected by the proposal. The main impact on these companies will be a reduction in the amount they are able to charge consumers to cover the costs of applying for and executing a warrant. This has been estimated at £6.9 million in total each year and the business impact target (BIT) assessment provides a breakdown of this figure by supplier. Ofgem also estimates a further cost relating to an increase in the non-recovery of debt (referred to as 'bad debt'), amounting to £0.8 million each year. The regulator suggests that administrative costs for suppliers could increase as a result of the measure "…*requiring the identification of specific types of relevant vulnerable situations*". The regulator explains, however, that it asked suppliers for evidence on this but did not receive data suggesting that this cost was significant. The BIT assessment explains why any such increase would be moderate because, for example, of the number of requirements already in place and existing supplier practices to identify consumer vulnerabilities.

The regulations are expected to last until 31 December 2020, the last expected end-date for the smart meter roll out. The regulator has, therefore, calculated the costs over a three-year period.

Quality of submission

The regulator's assessment is very brief even for a measure with an EANDCB under £10 million and is sufficient only when combined with its statutory impact assessment.[1] The statutory IA provides further information on at how the £6.9 million cost to suppliers of discounting warrant charges has been arrived at (e.g. table on page 25). The BIT assessment would benefit from setting out this calculation more clearly, and in particular from clarifying Ofgem's assumptions around the number of warrants issued and the extent to which charges previously exceeded the £150 cap.

The statutory IA also provides further information on how the 'bad debt' arises and how it has been calculated (e.g. pages 30-31). This cost appears to come from an element of the overall measure that prohibits the installation of PPMs for a subset of vulnerable consumers. The BIT assessment would benefit from explaining more clearly what this cost represents and how it arises, how it has been calculated and why it is considered to be a direct cost of the measure.

Overall, at a minimum, the BIT assessment should include a link to the IA and an indication of where the key information supporting the BIT assessment is presented in that document. The RPC's validation of future BIT assessments of this nature from Ofgem will depend upon this information being included.

The BIT assessment would also benefit from including some discussion of the wider impacts of the measure on business. This should include a discussion of incentives on any suppliers currently charging less than £150 to increase their charges to this 'going rate'. An appropriate discussion is provided in the statutory IA, which could helpfully be summarised or referred to in the BIT assessment.

The regulator's assessment of possible increased administrative costs is sufficient on the basis that it has sought information and explained why the impact should in any case be relatively small. The BIT assessment would benefit, however, from providing further details on what the Department has done to acquire information and, particularly, on the requirements and supplier practices currently in place and how these will limit any additional costs.

[1] https://www.ofgem.gov.uk/system/files/docs/2017/06/prepayment_meters_installed_under_warrant_-_impact_assessment.pdf

Finally, the BIT assessment would also benefit from being more explicit on the end date of the regulations. The RPC validation of the regulator's assessment and, in particular, the BIT score (which is also subject to framework requirements for the present parliament) is on the basis that the measure lasts for three years only.

Regulator assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£7.7 million
Business net present value	-£22.3 million

RPC assessment

Classification	Qualifying regulatory provision under the framework rules relating to the 2015-17 parliament
EANDCB – RPC validated	£7.7 million (three year time-limited)
Business impact target score	£23.1 million under the framework rules relating to the 2015-17 parliament

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